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CURRENT SUPPORT MEMORANDUM

SOVIET MOTIVATIONS IN RECENT
ACTIVITIES ON WESTERN COMMODITY MARKETS

OFFICE OF RESEARCH AND REPORTS
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SOVIET MOTIVATIONS IN RECENT
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In recent months exceptionally large Soviet supplies of tin, aluminum, asbestos, and other commodities have been offered for sale in the West in most cases at prices considerably below those prevailing on Free World markets. These sales appear at this time to be based mainly, if not exclusively, on several strong economic considerations most important of which is the Soviet need for Western exchange.

Summary of Recent Soviet Commodity Sales

An unprecedentedly large volume of Soviet tin was offered for sale in the West in 1957 and 1958, 10,000 tons in 1957 and 8,500 tons in the first half of 1958 against 1,500 in 1956. To establish a market the USSR priced its tin below that of Free World producers but later at the support price of the International Tin Council. These sales which were made possible by a relative surplus of tin in the USSR resulting from large imports from China, seriously disrupted the Western tin market already under heavy pressure from reduced world demand. 1/

Since 1955, when the USSR became for the first time a net exporter of aluminum, Soviet sales, which rose to 30,000 tons in 1957, have offered increasing competition to the several major Western producers. After the leading Canadian producer cut its UK delivery price two cents a pound in April 1958--the first price reduction in 10 years--the USSR offered to undersell all bidders by 10 percent. According to Soviet spokesmen, the USSR's inability to guarantee long-term continuity of supply made Western buyers unwilling to purchase Soviet aluminum except at bargain prices. 2/

Other commodities which have been sold recently by the USSR in exceptionally large quantities at low prices apparently to secure a share of the market include asbestos, flax, wood pulp, and newsprint. Soviet asbestos sales, made at reported discounts of 20-25 percent, have risen from 4,000 tons in 1950 to nearly 60,000 tons in 1957 and an anticipated 75,000 tons in 1958, and are cutting deeply into the West European market of Canada's several large producers. 3/ In 1956 the USSR became the world's largest flax exporter when 27,500 tons were sold compared to only 5,500 tons in 1955. In 1957, 35,700 tons were exported. In the first half of this year Soviet offerings of wood pulp and newsprint at prices below those of Canada and the US were reported in the US, Europe, the Middle East, and Latin America. 4/

Economic Motivation

Soviet plans for industrial expansion with the aid of imported Free World goods will require a rise in Soviet exports which traditionally have been composed of industrial materials and food. It is established Soviet trade practice to sell those goods netting the largest return. The commodities now sold in increasing amounts by the USSR are most often those whose prices have been least affected by the recession, and which thus afford the best opportunity for acquiring foreign exchange. Had Western commodity markets displayed their pre-1958 buoyancy, these increased Soviet offers largely would have passed unnoticed.

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The USSR is experiencing increasing difficulties in trying to raise the level of its exports to Western Europe. This area, which provided 63 percent of Soviet imports from the Free World in 1957, is where the bulk of Soviet purchases for expanding chemical production will probably be made. Recently, however, Denmark and Italy have demanded that the USSR settle its sizeable import surpluses with them in convertible currencies, rather than Soviet goods. In early 1958 Belgium, with which the USSR is currently running a large trade deficit, stopped granting swing credits to the bloc because they had become a means for financing chronic import surpluses by Bloc members. Finland, in order to reduce its large export surplus with the USSR, agreed in September to buy \$15,000,000 worth of Soviet fuels and metals for stockpiling. These developments and Soviet efforts to push its exports in these countries suggest a foreign exchange shortage in the Soviet Union. 5/

Although the USSR sells gold in order to assist in financing import balances with the West, Soviet planners are probably acting on the awareness that gold production in the USSR is of relatively high cost, both in terms of the productivity of labor and capital when used in gold mining as compared with their productivity in alternative employments and in terms of the Western exchange which these potential exports are capable of earning.

It is also worth noting that most if not all of the commodities which the USSR has increasingly offered for sale in the West have at least two features in common. First, they are in relatively easy supply in relation to current Soviet needs. Second, the Western commodity markets affected by Soviet sales have been characterized by limited competition among sellers and an artificially high price even in a depressed market. Thus it appears that the USSR may be using tin, aluminum, wood pulp and other commodities in place of gold as a more efficient means of acquiring the Western exchange required for its import program.

Lack of Primary Political Motivation

The possibility that these sales are motivated by a Soviet desire to disrupt Free World markets appears remote. After the recent drop in London tin prices brought numerous heated protests against Soviet competition by Malaya and other producing countries, the USSR attempted to regain favor by purchasing tin on the London market. It thus appears that any political gains from the disruption of Free World commodity markets might be offset by the ill-will of the underdeveloped primary producing countries--currently the targets of the Soviet trade and aid offensive.

Furthermore, it appears that the USSR viewed the prospects of a Free World depression in early 1958 with mixed feelings. Although such a depression would tend to bear out Marxian views on the "deepening crisis of capitalism", a general depression in the Free World would have directly adverse effects on the Soviet Union. Because such a depression would almost certainly cause prices of primary goods (Soviet exports) to fall faster and further than prices of manufactured goods (Soviet imports), the USSR would have to increase its export volume in order to buy even the same quantity of imports. Soviet awareness of this adverse development is indicated in a recent Soviet foreign trade journal, in which it is stated that, because of the Western economic recession in 1957-1958, "certain difficulties were naturally encountered" in selling Soviet export goods on capitalist markets. 6/

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Analyst:

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